

# MANAGEMENT INFORMATION SERVICE

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### USE OF LONGEVITY PAY FOR CITY EMPLOYEES

*What is longevity pay? How are longevity pay provisions developed, installed, and administered? What are the advantages and disadvantages of such a plan?*

Municipal administrators are increasingly concerned with the problem of hiring and retaining qualified personnel. Not only has the personnel shortage made it more difficult to compete with private employers in recruitment, but it has accentuated the problem of turnover caused by employees leaving for better paying jobs. Longevity pay is one of the measures cities may take in an attempt to reduce turnover.

Longevity pay is used to compensate an employee at a higher rate than the maximum rate provided for the class to which his position is allocated. This is done without any change in the position classification plan or the basic pay plan. In addition to length of service, the other basic requirements to qualify for longevity pay usually are (1) a certain period in the class of positions, (2) a stipulated period at the maximum rate of the pay range, and (3) satisfactory service ratings.

Additional compensation both to encourage and recognize long tenure of employees has been adopted by the federal government, at least 13 states, and several cities and counties. Subsequent sections of this report describe the installation and administration of longevity pay together with a summary of advantages and disadvantages.

#### Importance of Sound Salary Ranges

Longevity pay presupposes that a city has established sound personnel classification and pay plans. The development, installation, and administration of each is a subject in itself, but some discussion is warranted on the importance of the pay plan in relation to longevity pay.

Since longevity pay basically provides for increasing the maximum rate paid to an employee in a specific class, particular attention should be given to the structure of salary ranges in the pay plan. Most city pay plans provide for salary ranges consisting of a minimum rate, several intermediate steps, and a maximum rate. The minimum rate represents the least that should be paid to an employee qualifying for work in a particular class and should be enough to permit the city to compete with other governmental jurisdictions and private employers in recruiting for all types of personnel. The maximum represents normally the greatest amount that a satisfactory employee in the same position should receive for the type of work performed, considering the relative importance of other classes of positions.

Between the minimum and maximum two or more intermediate steps are generally provided to compensate employees for increased usefulness and efficiency over a period of time and to provide direct incentive and reward for efficient service. Such increases in the regular pay plan are commonly termed "merit" increases.

Maximum and minimum rates in each of the several pay ranges should generally show the same relative rate of increase. A maximum rate about 20 to 30 per cent higher than the minimum is common in city pay plans.

Other important factors to be considered in establishing salary ranges are the number of

steps in the range, the size of the intervals, and the time required to move up through the range.

Number of Steps. The number of steps in a range may vary greatly. Normally, most cities establish four, five, or six steps, but more may be occasionally provided. Royal Oak, Michigan (46,898), in adopting a pay plan in 1954 provided 11 steps for some clerical, fiscal, and administrative classes of positions and fewer steps for other classes.

Longer pay ranges have been advocated for some classes of employment with the following characteristics: (1) Substantial opportunity exists for the employee to enhance his usefulness over an appreciable period of time; (2) Opportunities for promotion are restricted because of the nature of the work and the characteristics of the governmental function served; (3) Appreciable differences are likely to be found in the work performed in different positions in the class.

Size of Pay Intervals. Ideally the size of step increases should be relatively constant percentages of the minimum salary and should be large enough to be significant to the employee. With various types of deductions, including withholding taxes, retirement, social security, hospitalization and group life insurance, credit union, and union dues, steps that increase salaries by 1, 2, or even 3 per cent are not sufficient to produce the desired incentive. An increase of approximately 5 per cent per step seems more satisfactory and in a five or six-step range would provide for an over-all range increase somewhere in the neighborhood of 25 to 30 per cent.

Time Intervals Between Steps. Step increases should be granted at such intervals as to provide incentive for good service. Municipal employees like most other persons are motivated for relatively regular pay increases. Waiting two years or more for an increase may tend to deflate employee morale, especially if the increases are comparatively small. Similarly, a new employee will generally need encouragement and recognition during the first few months of employment. Personnel rules should provide for a suitable probationary period, usually six months, after which an employee is either released or retained depending upon whether or not his performance is satisfactory. If he proves satisfactory, many cities then grant a one-step or probationary increase. This helps to provide the recognition an employee needs early in his employment and provides incentive to improve future performance. Additional increases usually are based on merit and seniority at annual intervals.

#### Developing Longevity Pay

The traditional salary range generally is accepted by cities as the best method of compensating an employee for the increased efficiency he demonstrates in his work over a period of time. As such, it promotes the concept of a career with progression depending upon merit.

The merit philosophy also is extended to promotions. All employees cannot be promoted, however, due to the limited number of promotional opportunities within the organization and the fact that all employees are not qualified to take on increased responsibilities and duties. The fact that an employee is not promoted, however, does not necessarily mean that he is not valuable in the position he holds. Quite often he will be most valuable due to the experience and know-how he has accumulated in the position over a period of time. Such an employee will reach the maximum rate of the pay range within a relatively short period of time in comparison with the length of his period of useful employment. Longevity pay plans have therefore been developed by a wide range of governmental jurisdictions to provide additional incentive for long service and to strengthen the career service.

Whether or not longevity pay is feasible or advisable for a city necessarily must be decided after an evaluation of the possible effects of the plan on the personnel program. Some of the factors to be studied and considered in the adoption of longevity pay are discussed in the following sections.

Jobs To Be Included. A city should give consideration as to whether longevity pay is to be provided for all employees or just for certain classifications.

If longevity pay is being considered to encourage career service a city may wish to include all positions for some higher level positions may be as much "dead end" as positions in lower classifications. In addition a city often may be more apt to lose an employee in a higher position because other cities may become interested in his services.

On the other hand some governmental jurisdictions will use longevity pay principally in areas where recruitment is unusually difficult, where turnover is more likely to be high, or where promotional opportunities are quite limited. Chicago, for example, has longevity pay for clerical classes and lower levels of engineering classes. Clerical classes in Chicago also include many typical administrative and fiscal positions up to certain grades, including such positions as license inspectors and administrative assistants. Included in the engineering classes are rodmen and subprofessional engineering positions. No longevity pay is in effect for police or fire personnel. Houston, Texas, and Kalamazoo and Saginaw, Michigan, have adopted longevity pay plans exclusively for the police and fire departments.

Another possible approach to longevity pay is to make it applicable to classes included in a specified number of pay ranges on the theory that promotion through the ranks to higher pay levels is ample reward for long service of such employees.

Length of Service Required. The best criterion to determine whether a city actually has longevity pay is the length of service required before an employee becomes eligible for a longevity increase. This requirement is affected by the time required for an employee to reach the maximum rate in the salary range and the time which must be spent at this maximum rate before a longevity increase is granted.

Assuming that it will take four to five years to reach the maximum rates of the regular salary ranges provided in most cities and that a suitable time is allowed to elapse before longevity pay is granted, it would seem that at least seven or eight years total service should be required. A few cities have pay plans termed "longevity," but which require five years or less service for the first longevity increase. These plans typically substitute a two to three-step salary range for the more common five and six-step ranges and then use a length of service or longevity factor to provide additional steps which a longer salary range already provides.

The length of service required for increases under bona fide longevity plans varies considerably. Rhode Island has the following requirements: (1) 10 years of service (not necessarily consecutive), (2) the last five years of consecutive service in the same class, and (3) the employee is at the maximum rate for the class.

In Arlington County, Virginia, employees generally reach the maximum rates of the salary ranges in about four years, and are eligible for a longevity increase in another four years.

Longevity pay for police and fire personnel in Houston is granted after five years of service. Flint, Michigan, in 1953 adopted a pay plan providing for five step increases over four years with longevity increases beginning after 10 years.

Amount and Number of Increases. The amount of longevity increases can be determined by several methods: (1) flat dollar amount; (2) per cent of base pay; (3) per cent of maximum rate; or (4) a normal step increase integrated into the pay plan.

Fulton County, Georgia, adopted longevity pay in 1954 specifying flat dollar amounts. Employees receiving the maximum salary in their classes for five years are eligible for a \$5 per month increase. Additional longevity increases in the same amount are provided for each five years of service up to a maximum longevity increase of \$25 per month. Other jurisdictions which grant flat dollar increases include Chicago, Houston, and Dearborn and St. Clair Shores, Michigan.

The Nebraska longevity pay increases are computed at 5 per cent of the employees current minimum pay (base pay) rounded off to the nearest dollar. Subsequent increases may be given on the same basis at two-year intervals provided that the total longevity increase may not exceed 50 per cent of the current minimum pay. Longevity increases based on a percentage of base pay also are used by Clawson, Grand Rapids, and Lansing, Michigan. Lansing's plan uses a sliding scale with larger percentage increases of base pay granted as service lengthens. Two per cent of annual base pay is granted as longevity pay for continuous service of six to 12 years; 4 per cent for 12 to 18 years; 6 per cent for 18 to 24 years; and 8 per cent for 24 or more years.

Flint, Michigan, longevity pay is computed at 5 per cent of the maximum pay rate for each position. Employees may receive three increases after 10, 15, and 20 years of service. The first

longevity increase requires that the last year of service of the employee be served in the maximum step of the pay range. The second longevity step requires that the employee have received the first longevity step for the past year, and the third longevity step requires that the last two years be served in the second longevity step.

Jackson, Michigan, computes longevity pay as 5 per cent of maximum rates. Two longevity increases are allowed, one after 10 years of service and the other after 20 years and at least one year at the first longevity step. Rhode Island provides four "seniority increases" that are accumulative to 10, 15, 20, and 25 per cent above the normal maximum scheduled rate. They are received after 10, 15, 20, and 25 years of service respectively.

Probably the best method of establishing longevity increases is to integrate it with the pay plan, providing special longevity steps for each pay range beyond the four to six steps found in most salary ranges. Assuming that the pay plan is sound, this would enable a city to provide longevity increases as logical extensions of salary ranges and relate the amount of normal increases to the amount of longevity increases. This would make the increases more significant to employees in different classes and would make them more aware of the planned system for rewarding long satisfactory service. Integration of longevity pay with the regular pay plan does not mean, however, that the length of salary ranges should be reduced or that progression through the regular range should be related strictly to length of service.

A typical pay range with 5 per cent steps and including longevity pay might appear as the hypothetical pay range shown below:

Range No.	Minimum	Step 2	Step 3	Step 4	Step 5	Step 6	Longevity
16	\$240	\$252	\$263	\$276	\$290	\$305	\$320 \$336 \$353

Prior Service Credit. In adopting longevity pay, a city likely will be called upon to extend prior service credit to all current employees. Thus the initial cost of a longevity pay plan could be quite high. The immediate cost would depend principally upon the length of service required before an employee would be eligible for an increase. The length of service factor breaks down into two parts: the length of city service required and the length of service required in the class and at the normal maximum pay rate established for the class. If the regular pay range is constructed soundly and length of service requirements can be reasonably considered as true longevity, the immediate cost in most cases would not be unduly great considering the purposes the plan seeks to accomplish.

Benton Harbor, Michigan, requires full-time, continuous service for the longevity pay. The same rule used in the retirement plan for prior service is used to grant prior service credit for longevity pay.

Budgetary Impact. In considering the costs of longevity pay, a city must consider both the short-term and long-term costs and direct and indirect costs. A longevity pay plan which increases an employee's salary normally increases all other amounts computed from the salary. Thus, a city will have to assume increased salary and wage costs and increased costs of employee fringe benefits. Indirect costs may include increases in social security and retirement contributions, over-time pay, industrial insurance, and vacation and sick leave costs. The long-term implications, especially for retirement contributions, may be quite serious.

#### Administering Longevity Pay

Various questions involving personnel policies and practices will crop up in administering longevity pay plans. As far as possible these problems should be anticipated by the city administrator and regulations drawn up to define city policies. Some of these policies to be considered are discussed briefly below.

Leaves of Absence. A city should decide whether service credit toward longevity pay will be given for military leave and other leave without pay. In such cases, the least most cities would probably allow would be to give credit for service prior to the leave. There would also seem to be

considerable justification for giving credit for leaves of absence to take part in some activity which increases the employee's value in his job or which is related to city employment. Military leave conceivably could be included or excluded depending on the attitude of the employing jurisdiction towards special benefits or preference to be accorded to veterans.

The Rhode Island regulation concerning the eligibility of employees on leave for "seniority increases" provides: "(4) *Employees on Leave.* Employees on military leave shall be granted seniority increases when due in accordance with the conditions of eligibility outlined in this regulation. Employees on 'leave without pay' for more than 30 successive days and less than six months who return to their positions may be recommended for seniority increase, if the conditions of eligibility are met, at the next quarterly increase date. If an employee has been absent from his position for six months or more and returns to his position and is otherwise eligible for a seniority increase, an appointing authority may recommend such increase, provided, however, that such recommendation must be explained in detail and approval must be obtained from the Personnel Administrator and the Director."

Reemployment. Reemployment presents problems as to whether service credits toward longevity pay should be allowed. When employees are laid off because of a temporarily reduced volume of work, a city generally will give such persons with satisfactory performance records preference when it is necessary to rehire for the position. If the positions are normally permanent, it would seem feasible that the employee should be allowed to carry forward service credits earned prior to the lay-off since the employee had been forced to leave the service. A time limit might be provided for this provision, however, perhaps for one year after the lay-off. In addition, if a laid off employee does not return to the city when he is given the opportunity, he might be required to forfeit all prior service credits if he is hired at a later date.

Salary Range Changes. The best constructed pay plan will not remain static over a period of years. Isolated changes may sometimes be required, the plan may be integrated with a cost-of-living pay adjustment plan, or a salary and wage survey may be made when a complete revision of the pay plan is indicated. Longevity pay must also be adjusted in such cases, and can be done without too much difficulty.

When longevity pay is integrated with the regular pay plan, employees receiving this additional pay would be paid at the same longevity step as previously. Longevity steps, of course, would be increased in the same ratio as the steps in the regular pay plan.

Promotion. Promotion of an employee receiving longevity pay to another class is one of the more difficult problems encountered in the administration of longevity pay. Most longevity plans do not permit the carrying of longevity service credits from one class to another or at least there is a minimum service requirement at the top rate in a class. Therefore, it is possible for an employee to be receiving a greater salary (regular rate plus longevity) in the lower class than he would receive in the promotional class. A special rule is needed in such instances.

The Rhode Island plan provides that an employee being promoted to a position where the rate would be less than the amount being received as result of longevity increases may be employed in the position at a rate equal to the salary being received. This requires the approval of the appointing authority and the approval of the budget officer as to the adequacy of funds. While this does not provide an immediate salary increase as is normal in cases of promotion, the employee still has the opportunity to progress to higher rates in the new range. In addition, in time he can become eligible for future longevity increases in the new class of positions.

Demotion. If an employee, recently promoted who had been receiving longevity pay in the lower class, is demoted before or after the end of his probationary period, he should still retain the right of his longevity pay which he earned through merit and service in the lower position. This would not result in any reduction in pay except for any difference between the salaries of his former position and the promotional position for which he did not qualify.

However, an employee receiving longevity pay in one class, and who is then demoted to a lower class, would receive a pay reduction even though he still is allowed to retain the same relative longevity pay step. This could be handled in a manner similar to changes in salary. If the plan uses

longevity steps integrated with the pay plan, he would maintain his relative position but at a lesser amount.

Service Ratings. Even though longevity pay basically is designed to reward long tenure, the vast majority of governmental plans specify "satisfactory service ratings" as a condition for eligibility. If a city does not have a formal performance (service, merit, or efficiency) rating program, it is still desirable that supervisors indicate in writing whether the employee's performance is satisfactory. (For a detailed discussion of performance rating, see MIS Report 147, *Employee Performance Rating Systems*, April, 1956).

### Merit and Seniority Factors

Salary increases can be granted on the basis of merit, length of service (longevity), or a combination of the two. Salary increases have been granted by many jurisdictions on the basis of merit. This reflected the original idea of merit system employment. In recent years seniority has acquired greater importance, especially for the police, fire, and labor groups of employees.

Some cities are attempting to combine the two approaches in salary administration. Two examples are the plans for Cleburne, Texas, and Ottumwa, Iowa.

Cleburne, Texas (12,905). The pay plan adopted in 1954 provides base pay rates for all employees with increases granted on the basis of longevity and satisfactory performance ratings. The city council may adjust the base pay rate up or down to meet rising or declining economic conditions.

All employees receive a \$2 per month increase for each year of creditable service, and total increase allowed to any employee cannot exceed \$40 per month. Periodic raises are computed on longevity periods of two, five, ten, fifteen, and twenty years. In installing the plan, prior service credit was allowed for all previous city employment and service in the armed forces after employment by the city.

To accumulate creditable time towards increases, all employees are rated semi-annually. Employees are rated on five factors and supervisors on eight. "Satisfactory" and "unsatisfactory" ratings are used and an employee must be rated "satisfactory" in all factors to receive credit towards the longevity increases.

Ottumwa, Iowa (33,631). In 1955 this city adopted an incentive pay plan based on step increases granted on the basis of ability, attitude, initiative, and longevity. The pay plan provides five steps with 5 per cent increments for each job classification.

1. The first or lowest pay rate for a given job is called the probationary or hiring rate. After three to six months an employee either is advanced to the second step or is not retained.
2. This is considered an in-service training step. The employee usually remains at this pay rate for one year; exceptional cases may be advanced faster.
3. An advancement to this step from the second step is not automatic. The great majority of employees should reach this step, however, because it is considered the normal rate for the satisfactory employee. Holding back an employee from the third step means he has not made the progress he should.
4. Step 4 and step 5 are reserved for recognition of meritorious performance as evidenced by evaluation of ability, behavior, loyalty, and extra work.
5. The difference between the fourth and fifth steps is one of degree and reward for continued excellent service.

The factors used in evaluating an employee, as listed in steps 4 and 5 are the following:

Ability. This factor is a measure of the demonstrated proficiency of an employee — the knowledge and skill of the job. It is the most measurable (except longevity) of all factors. It includes output and accuracy. Ability alone may not justify a raise nor does it always insure success on a job.

Attitude. This is the most difficult factor to evaluate. It includes such elements as alertness, regularity, drive, habits, interest, cooperativeness, and ability to get along with people. Supervisors must apply it in such a manner that employees understand and appreciate its value.

Initiative. This factor measures the employee's ability to go ahead with program and work without close supervision and to do the "extra things" not necessarily required.

Longevity. Longevity is a measure of loyalty and recognizes that years of service provide continuity. An employee, not exceptional, but who has served 10 years, may warrant the fourth step simply on this element alone. As years of service progress, a stronger reason is needed for not granting an increase. A set figure is not used, however, but it must be based on departmental and city-wide conditions.

Under the incentive pay plan the progress of each employee is reviewed at least once a year by the department head who reports his recommendations to the personnel officer. The department head must review the employee's progress with him privately; if a raise is not granted, the "boss" must explain why. The personnel officer and city manager review all recommendations of the department head to insure fairness. If an employee is turned down he may receive a review by his department head, the personnel officer, or the city manager at any time.

#### Advantages and Disadvantages of Longevity Pay

Longevity pay is a relatively recent development in the field of governmental employment and particularly so in cities. As such, there is considerable disagreement as to the merits of the device. Among the major advantages claimed by proponents are:

1. It encourages long, faithful service and continuing efficiency and morale and supplements nonmonetary methods of recognizing long service.
2. It offsets to some extent the lack of incentive of employees in "dead-end" positions with few promotional opportunities who are faced with the prospect of remaining indefinitely at the maximum rates set for their classes.
3. It helps reduce turnover among long-term and experienced employees whose loss would result in increased costs due to a loss of effectiveness and in the expense of training replacements.
4. It tends to lessen demand for general increases in basic pay rates or for increases in the maximum rates.

The principal objections to longevity pay are:

1. It breaks down the merit concept of granting pay increases because of undue emphasis on seniority.
2. It brings increased retirement costs for the city resulting from higher salaries paid to older employees.
3. It brings additional budgetary problems in financing the increased salaries to be paid.
4. The tendency to coddle older employees will encourage mediocrity in the city service rather than promote increased efficiency.

*Note:* City officials desiring additional information on longevity pay provisions in effect for governmental units should check the report entitled, *Longevity Pay Provisions in Several City, County, and State Services and in the Federal Government* (American Federation of State, County, and Municipal Employees, Federation Building, Madison 1, Wisconsin. February 27, 1956. 16pp).

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